



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Expenditure Limitation Report

Maricopa County

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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Maricopa County
Report on Audit of Annual Expenditure Limitation Report
Year Ended June 30, 2005

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying Annual Expenditure Limitation Report of Maricopa County for the year ended June 30, 2005. This report is the responsibility of the County's management. Our responsibility is to express an opinion on this report based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

The Maricopa Managed Care Systems had inadequate internal controls for processing medical claims for its healthcare programs consisting of the Maricopa Health Plan and Arizona Long-Term Care System programs. As a result, we could not rely on the Systems' financial reporting system to generate reliable information for medical expenses. Further, the Systems' records did not permit us to apply sufficient auditing procedures to determine whether the amounts reported for the Systems' medical expenses were accurate. The Maricopa Managed Care Systems' healthcare programs were reported as Enterprise Funds in the County's financial statements, and these medical expenses for fiscal year 2005 totaled \$341.9 million representing 59 percent of total Enterprise Funds' expenses. Consequently, we were unable to determine the accuracy of the Enterprise Funds' exclusions claimed for contracts with other political subdivisions and prior years carryforward on Part II, and total Enterprise Funds' expenses and special items reported on the Reconciliation.

The accompanying Annual Expenditure Limitation Report was prepared for the purpose of complying with the uniform expenditure reporting system as discussed in Note 1, and is not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to audit certain medical expenses of the County's Enterprise Funds, as described in the third paragraph, the Annual Expenditure Limitation Report of Maricopa County for the year ended June 30, 2005, referred to above presents fairly, in all material respects, the information required by the uniform expenditure reporting system on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the members of the Arizona State Legislature and the Board of Supervisors, and for filing with the Auditor General of the State of Arizona, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

October 22, 2007

Maricopa County
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2005

1. Economic Estimates Commission expenditure limitation	\$792,929,498
2. Amount subject to the expenditure limitation (total amount from Part II, Line C)	<u>792,929,497</u>
3. Amount under the expenditure limitation	<u>\$ 1</u>

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of Chief Fiscal Officer: _____

Name and Title: Tom Manos, Chief Financial Officer

Telephone Number: (602) 506-3561 Date: October 22, 2007

See accompanying notes to report.

Maricopa County
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2005

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$ 1,213,375,980	\$ 579,176,684	\$ 89,428,855	\$ 10,508,150,321	\$ 12,390,131,840
B. Less exclusions claimed:					
Proceeds from other long-term obligations (Note 2)	20,384,655				20,384,655
Debt service requirements on other long-term obligations (Note 3)	16,453,339	2,797,349	120,712		19,371,400
Dividends, interest, and gains on the sale or redemption of investment securities (Note 4)	29,286,647	1,022,723	1,234,812		31,544,182
Trustee or custodian (Note 5)	38,659,236			10,508,150,321	10,546,809,557
Grants and aid from the federal government (Note 6)	174,581,568	2,835,763			177,417,331
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 7)	181,144				181,144
Amounts received from the State of Arizona (Note 8)	48,347,431				48,347,431
Quasi-external interfund transactions (Note 9)	210,918	44,208,904	76,848,637		121,268,459
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements (Note 10)	15,486,011				15,486,011
Highway user revenues in excess of those received in fiscal year 1979-80 (Note 11)	75,686,409				75,686,409
Contracts with other political subdivisions (Note 12)	40,331,094	367,820,481	9,983,003		418,134,578
Refunds, reimbursements, and other recoveries (Note 13)	4,611,129	71,232,477			75,843,606
Amounts received for distribution to school districts (Note 14)	17,416,332				17,416,332
Prior years carryforward (Note 15)	<u>29,092,593</u>	<u>206,773</u>	<u>11,882</u>		<u>29,311,248</u>
Total exclusions claimed	<u>510,728,506</u>	<u>490,124,470</u>	<u>88,199,046</u>	<u>10,508,150,321</u>	<u>11,597,202,343</u>
C. Amounts subject to the expenditure limitation	<u>\$ 702,647,474</u>	<u>\$ 89,052,214</u>	<u>\$ 1,229,809</u>	<u>\$ -</u>	<u>\$ 792,929,497</u>

See accompanying notes to report.

Maricopa County
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2005

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 1,523,963,815	\$ 692,155,832	\$ 95,575,908	\$ 10,508,150,321	\$ 12,819,845,876
B. Subtractions:					
Items not requiring use of working capital:					
Depreciation		9,707,503	854,708		10,562,211
Loss on disposal of capital assets			43,282		43,282
Claims incurred but not reported (Note 16)			49,194,777		49,194,777
Expenditures of separate legal entities established under Arizona Revised Statutes (Note 17)	101,447,735				101,447,735
Long-term care contributions withheld by the State Treasurer (Note 18)	125,610,000				125,610,000
Disproportionate share contribution withheld by the State Treasurer (Note 18)	83,530,100				83,530,100
Loss on closure of business activity		108,765,405			108,765,405
Total subtractions	<u>310,587,835</u>	<u>118,472,908</u>	<u>50,092,767</u>		<u>479,153,510</u>
C. Additions:					
Principal payments on long-term debt (Note 19)		2,027,943	112,010		2,139,953
Acquisition of capital assets		2,715,312	1,538,650		4,253,962
Claims paid in the current year but reported as expenses incurred but not reported in previous years (Note 16)			42,295,054		42,295,054
Landfill closure and postclosure care costs recorded as expended in previous years (Note 20)		750,505			750,505
Total additions		<u>5,493,760</u>	<u>43,945,714</u>		<u>49,439,474</u>
D. Amounts reported on Part II, Line A	<u>\$ 1,213,375,980</u>	<u>\$ 579,176,684</u>	<u>\$ 89,428,855</u>	<u>\$ 10,508,150,321</u>	<u>\$ 12,390,131,840</u>

See accompanying notes to report.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The Annual Expenditure Limitation Report (AELR) is presented on the basis of accounting prescribed by the uniform expenditure reporting system (UERS), as required by Arizona Revised Statutes §41-1279.07, which excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

In accordance with the UERS requirements, a note to the AELR is presented below for any exclusion claimed on Part II and each subtraction or addition in the Reconciliation that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds; Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds; Statement of Cash Flows for the Proprietary Funds; and the Statement of Changes in Fiduciary Net Assets for the Fiduciary Funds.

Note 2 - The exclusion claimed for proceeds from other long-term obligations of \$20,384,655 in the Governmental Funds consists of lease trust certificates proceeds of \$12,000,000 and capital lease proceeds of \$8,384,655 reported as capital outlay expenditures.

Note 3 - The exclusion claimed for debt service requirements on other long-term obligations consists of principal retirement and interest expense of \$11,079,415 and \$5,373,924, respectively, in the Governmental Funds; \$2,027,943 reported as principal payments on long-term debt on the Statement of Cash Flows, and \$769,406 reported as interest expense in the Enterprise Funds; and \$112,010 reported as capital lease payments on the Statement of Cash Flows, and \$8,702 reported as interest expense in the Internal Service Funds.

Note 4 - The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$29,286,647 in the Governmental Funds consists of interest on investments of \$16,255,690, which was reported as miscellaneous revenues, and interest on delinquent taxes of \$13,030,957, which was reported as tax revenues. Remaining excludable revenues of \$23,926 reported as miscellaneous revenues were unexpended and have been carried forward to future years. The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$1,022,723 and \$1,234,812 in the Enterprise Funds and the Internal Service Funds, respectively, consists of interest on investments, which was reported as investment income.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2005

- Note 5 - The exclusion claimed for trustee or custodian in the Governmental Funds consists of \$38,659,236 in contributions by the County to the Arizona Health Care Cost Containment System (AHCCCS) for acute care and, in the Fiduciary Funds, the exclusion consists of \$10,508,150,321 in distributions to investment pool participants.
- Note 6 - The exclusion claimed for grants and aid from the federal government of \$177,417,331 consists of the following:
- Governmental Funds—\$174,581,568. This amount consists of federal grants of \$91,051,468 and disproportionate share settlements of \$83,530,100 reported as intergovernmental revenues.
- Enterprise Funds—\$2,835,763. This amount consists of \$734,611 of federal grants reported as grant revenues, and \$2,101,152 of disproportionate share settlements reported as miscellaneous revenues.
- Note 7 - The exclusion claimed for grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes in the Governmental Funds, consists of \$181,144 reported as miscellaneous revenues. Remaining excludable revenues of \$2,206,799 reported as miscellaneous revenues were unexpended and have been carried forward for future years.
- Note 8 - The exclusion claimed for amounts received from the State of Arizona of \$48,347,431 in the Governmental Funds consists of \$47,769,051 reported as intergovernmental revenues and \$578,380 reported as miscellaneous revenues. Remaining excludable amounts of \$839,228 reported as intergovernmental revenues have been carried forward to future years.
- Note 9 - The exclusion claimed for quasi-external interfund transactions of \$210,918 in the Governmental Funds represents service billings that were reported as miscellaneous revenues. In the Enterprise Funds, \$44,208,904 was reported as net patient service revenues, which consists of Medical Center Fund recoveries received from other county funds. In the Internal Service Funds, the \$76,848,637 represents charges for services revenues paid from other county funds to the internal service funds. Remaining excludable internal service funds charges for services revenues of \$12,245,614 were unexpended and have been carried forward to future years.
- Note 10 - The \$15,486,011 exclusion claimed in the Governmental Funds for amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements consists of capital outlay expenditures for the construction of new jail facilities made from the accumulation of sales tax revenues approved and exempted from the expenditure limitation by county voters.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2005

Note 11 - The exclusion claimed in the Governmental Funds for highway user revenues in excess of those received in fiscal year 1979-80 is derived by subtracting the 1979-80 base year highway user fees of \$14,879,726 from the total of highway user revenues received of \$90,566,135, which was reported as intergovernmental revenues.

Note 12 - The exclusion claimed for contracts with other political subdivisions of \$418,134,578 consists of the following:

Governmental Funds—\$40,331,094. This amount consists of \$40,313,270 reported as intergovernmental revenues, and \$17,824 reported as miscellaneous revenues. Remaining unexpended intergovernmental revenues of \$2,456,759 have been carried forward to future years.

Enterprise Funds—\$367,820,481. This amount consists of \$358,535,753 reported as charges for services revenues, and \$9,284,728 reported as net patient service revenues.

Internal Service Fund—\$9,983,003. This amount was reported as intergovernmental revenues.

Note 13 - The exclusion claimed for refunds, reimbursements, and other recoveries of \$4,611,129 in the Governmental Funds consists of various expenditure reimbursements reported as intergovernmental revenues, fines and forfeits revenues, and miscellaneous revenues. The exclusion claimed for refunds, reimbursements, and other recoveries of \$71,232,477 in the Enterprise Funds consists of Medicare reimbursements of \$21,771,002, AHCCCS reimbursements of \$42,612,510, and health maintenance organizations reimbursements of \$6,848,965.

Note 14 - The exclusion claimed in the Governmental Funds for amounts received for distribution to school districts consists of federal, state, and county revenues of \$17,416,332 reported as education expenditures for the operation of accommodation schools and the small schools service program. Remaining federal, state, and county revenues of \$216,818 have been carried forward to future years.

Note 15 - Prior years carryforward consists of constitutionally excludable revenues unexpended in the year of receipt that have been accumulated and were expended in the current year, as follows:

Description	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Proceeds from other long-term obligations	\$15,212,269		
Dividends, interest, and gains on the sale or redemption of investment securities		\$203,161	
Amounts received from the State of Arizona		3,612	
Quasi-external interfund transactions			\$11,882
Contracts with other political subdivisions	<u>13,880,324</u>		
Total prior years carryforward expended	<u>\$29,092,593</u>	<u>\$206,773</u>	<u>\$11,882</u>

Maricopa County
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2005

Note 16 - The subtraction of \$49,194,777 for claims that were reported but unpaid or incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the Internal Service Funds. The addition of \$42,295,054 for claims paid in the current year consists of cash payments in the current year for claims recognized as an expense in previous years in the Internal Service Funds.

Note 17 - The subtraction of \$101,447,735 for separate legal entities established under Arizona Revised Statutes consists of expenditures of special assessment districts included within the County's reporting entity, but not included in the Economic Estimates Commission base limit calculations, and are reported in the Governmental Funds category in the fund financial statements:

Special Assessment Districts	
Public safety	\$ 31,364,082
Culture and recreation	16,062,723
Debt service	7,828,115
Capital outlay	<u>46,192,815</u>
Total	<u>\$101,447,735</u>

Note 18 - The amount of transaction privilege taxes withheld by the State Treasurer to meet the County's share of long-term care costs and disproportionate share costs for indigent treatment were reported as revenues and offsetting expenditures in the County's Governmental Funds. Consequently, these expenditures have been subtracted on the Reconciliation.

Note 19 - The addition of \$2,027,943 for principal payments on long-term debt in the Enterprise Funds consist of certificates of participation payments of \$365,000, lease revenue bond payments of \$1,419,694, and installment purchase contract payments of \$243,249. The addition of \$112,010 for principal payments on long-term debt in the Internal Service Funds consists of capital lease payments.

Note 20 - The addition of \$750,505 for landfill closure and postclosure care costs paid in the current year, but reported as expenses in previous years, consists of cash payments in the current year for those costs reported as expenses in previous years in the Enterprise Funds.